

Lifestyle corporation

Business



The internal revenue service also requires the partners to pay their income taxes depending on the agreement on distribution ratios of profits and losses (Ernst, Young & Bernstein, 2013). Partners must always pay taxes whether they make losses or profits. The only exemption to the mode of payment by the partners can only be done through an agreement stating otherwise (Ernst, Young & Bernstein, 2013). Due to the above features of partnership, the organization is safe from double taxation which is an advantage to the organization. According to this research, any organization would largely benefit from the formation of a general partnership (Ernst, Young & Bernstein, 2013). Therefore, a general partnership is better than the single entities; Able and Baker should form a general partnership.

Being a corporation has various tax benefits. With a corporation, there are no restrictions or limits on the number of operating losses that the corporation can carry back or forward for the following tax years (Mancuso, 2011).

However, with unincorporated institutions, there are restrictions on corporate losses. For unincorporated entities, they cannot claim capital loss greater than \$3000 not unless it has to offset capital gains (Mancuso, 2011). In addition, corporate entities can lease assets to other entities for exchange of rental fees or rental income. By leasing these assets, the corporation reduces the amount of taxes charged (Mancuso, 2011). In addition, tax deductions on corporations are much higher compared to single entities where tax deductions are minimal. It is therefore advisable for any entity to make it is business corporate to enjoy these benefits.

Tax can also be reduced by forming a corporation. This is achievable as the shareholders pay income taxes on the shares of the organization they own (Melvin & Chan, 2007). By maximizing deductions, a company can be able to <https://assignbuster.com/lifestyle-corporation/>

reduce taxes. This can be done through proper record keeping and seeking advice from professionals (Melvin & Chan, 2007). The corporation should also hire independent contractors to perform various obligations. Independent contractors are liable and responsible for the payment of their taxes (Melvin & Chan, 2007). Since tax is deducted on the payments of the contractors, the corporation is able to reduce taxes largely. A firm's success highly depends on the decisions of the directors (Melvin & Chan, 2007). For this reason, the management of the corporation should hire directors who are qualified and competent to run the company. Competent directors will be in a position to make decisions that benefit the organization as well as that of reducing taxes imposed on the organization (Melvin & Chan, 2007).